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SUBJECT: UNDP ASSOCIATE ADMINISTRATOR AD MELKERT PROVIDES RESPONSE TO USUN AMBASSADOR MARK WALLACE

REF: A. USUN 00011
[B.](#) USUN 00023
[C.](#) USUN 00034
[D.](#) USUN 00035
[E.](#) USUN 00038

[¶](#)1. In a letter dated January 21, 2007, UNDP Associate Administrator Ad Melkert responded to Ambassador Mark Wallace's letter of January 16, 2007. In this letter, the latest in a string of formal communication between USUN and UNDP, Associate Administrator Melkert attempts to explain away USG concerns regarding the UNDP DPRK country program while acknowledging violations of UNDP rules.

[¶](#)2. Text of Associate Administrator Ad Melkert letter follows:

Begin Text: Dear Mr. Ambassador,

Thank you for your letter of 16 January 2007 - I also appreciated our breakfast conversation. As with your previous letters we have looked carefully into the questions raised in your letter of 16 January 2007.

Before responding in detail, allow me to share some general observations.

As you know UNDP is implementing the DPRK programme in accordance with the decisions of the entire Executive Board. There are a number of formal safeguards in place to ensure that implementation is in compliance with existing rules and regulations, including the opportunity for the UN Member States to raise audit issues on country programme implementation on the basis of the annual report by the UN Board of Auditors. These procedures serve both as an oversight mechanism and as a safeguard for UN country staff, particularly staff that are performing duties in the most difficult of circumstances.

As we both know circumstances in countries vary tremendously. Yet there is, and should continue to be, a single set of procedures that our operations adhere to. I want to reiterate the position of the Administrator and myself that in our country programme implementation we do not tolerate exceptions to the standard norms. Since the country programme is owned by the programme country this requires full compliance from the latter's side in order to enable agencies, funds and programmes to do their work. In the particular circumstances that define the options for implementation of the DPRK country programme by UNDP, the fundamental question is whether there is a role at all for UNDP, or for that matter other UN agencies. Whilst this is a decision for the Executive Board, I would like to emphasize that UNDP staff are in North Korea because, to date, the entire Executive Board has expressed the wish for us to be there.

It is important to clarify this matter as the pertinent questions you have raised have spilled into the public domain which is no problem as long as there is respect for the facts.

We are deeply disheartened by your assertion - which we cannot accept - over UNDP's alleged "complicity" with the DPRK programme that "has been systematically perverted for the benefit of the Kim Jong II regime - rather than the people of North Korea (...) in blatant violation of UN rules (...)" . Equally we firmly take exception with your statement that "UNDP apparently has failed to bring the widespread violation of UNDP rules in the DPRK country program to the attention of the UNDP Executive Board". We would be grateful if you would reconsider both the assertion and conclusion, taking into account the responses provided below.

With reference to the questions and assertions that you have derived from the in-person review of the 1999, 2001 and 2004 internal audit reports I note that you have not referred to the noticeable improvement in the implementation of audit recommendations between 1999 and 2004. The internal auditor's count shows that meaningful follow-up was given to the many audit recommendations, with a remarkable decrease in the apparent need for recommendations in 2004 as opposed to the high numbers in 1999 and 2001 (see specifications in Annex 1a). While this does not indicate that everything is perfect, it underscores the serious effort made to ensure effective oversight, despite a less than conducive environment. Moreover the recommendations have identified fundamental issues that needed to be addressed beyond the existing framework of cooperation with DPRK, i.e. direct payments in hard currency to government, national partners, local staff and local vendors and sub-contracting of national staff via government recruitment. As you know we have decided to discontinue both practices.

I would like to respond to your seven "points and conclusions":

¶1. U.S. Conclusion: "UNDP local staff is dominated by DPRK government employees"

With reference to the above conclusion this should be no surprise to anyone familiar with the local situation in DPRK. Indeed diplomatic missions, international organizations and NGOs in DPRK are subject to service agreements with the government on national staff provision. The pertinent point is whether we would want to continue this situation. As you know for the Administrator and I the answer is clear: we do not want this practice to continue and we have informed the DPRK government of this decision.

¶2. U.S. Conclusion: "UNDP DPRK government employees have performed financial and program managerial core functions in violation of UNDP rules."

I have been informed about the following practical arrangements that in recent years do not confirm your point. UNDP DPRK assigns job functions to its national staff in DPRK similar to its national staff in any other UNDP country office - and this includes operational and programme functions. All national staff members are closely supervised by international personnel (four staff), and no national staff has the authority to make resource allocations decisions or commitments on behalf of UNDP. Please find as annex 1b) a more detailed breakdown of different functions and assignments of responsibilities.

¶3. U.S. Conclusion: "The DPRK government insists upon and UNDP pays cash to local DPRK government suppliers in violation of UNDP rules."

You may wish to review this conclusion as UNDP in DPRK does not pay government suppliers in cash but by cheque or bank transfer. Also your later reference to the DPRK government accepting only cash is not supported by the fact that all

UNDP payments to the government are by cheque or bank transfer.

¶4. U.S. Conclusion: "UNDP funds DPRK controlled projects without the oversight required by UNDP rules."

The facts provide a different picture of the reality on the ground. Out of eleven ongoing projects that are nationally executed, nine are, de facto, directly executed by UNDP in the form of country office support to NEX. Accordingly, UNDP financial, procurement and personnel policies have been applied to their implementation, including a review by the Local Contracts, Assets and Procurement Committee as necessary. For two NEX projects, advances have been given on a quarterly basis, and reporting has been received from project authorities on the amounts spent as per UNDP programme procedures. No advances have been made for any other amounts spent as per UNDP programme procedures. No advances have been made for any other ongoing NEX project. All advances to the government have been discontinued as of January 2007. Importantly the total of transfer payments for 2005/06 is, to be precise, US\$337,701.28.

¶5. U.S. Conclusion: "There is no audit review of DPRK controlled programs in violation of UNDP rules."

This statement stands to be corrected in view of the fact that in accordance with standing procedures on NEX audits for every year since 2001 the Country Office in DPRK has the required "Evaluation of Audit of NEX Projects" annual letters on record. Since the first letter in 2001, which had an overall rating of "deficient", the letters in 2002, 2003, 2004 and 2005 had a rating of "satisfactory" from the Office of Audit Performance and Review. Indeed the overall OAPR Audit ratings improved from "marginally deficient" in 1999 and 2001 to "partially satisfactory" in 2004, which is reason for further corrective action along the upward trend that has become visible in more recent years. These facts do not sustain your conclusion on "violation" of UNDP Rules. However I do appreciate your concern whether the general rules, following from the General Assembly's call to support national capacity building in development programme implementation, provide sufficient conditions for effective oversight in the specific context of DPRK. I see this as a common objective for the Executive Board and UNDP management to address such concern in the appropriate manner.

¶6. and 7. U.S. Conclusion: "The DPRK refuses to allow outside audits of any DPRK projects and instead either limits UNDP audits or utilizes "sham" DPRK audits in violation of UNDP rules" and that "UNDP officials are not permitted to perform

site visits to many UNDP DPRK projects in violation of UNDP rules."

On the facts I have established that in 1999 the Country Office contended that project visits were made without being duly recorded. Furthermore, I have been informed that since 2000 requests to visit projects have been allowed, including by Headquarters' staff and project review teams.

In addition, as stated before, there have been supportive OAPR assessments of NEX audits according to the standing procedures. In Annex 1c) please see the account by our staff on a number of initiatives that have been taken in recent years to meet demands for adequate monitoring. However, as stated before, it is not the only observation of formal requirements that we must look at as what counts most is whether procedures help us to ensure effective oversight over the substantive part of the programme. We will follow this up accordingly.

U.S. reference to the 1999 Audit concerning UNDP "routinely making direct payments to the DPRK"

I would like to draw your attention to the fact that the Audit recommended that the "Office should consider discontinuing the practice of making direct payments for

"routine matters", because it was for purely practical consideration seen as an unnecessary burden to the Country Office daily management.

U.S. reference to the 1999 Audit on the absence of annual "DPRK government contributions (in-kind or otherwise) towards local in-country UNDP office costs ("GLOC")"

I can inform you that since 1999 this is no longer the case, although the country's record is still insufficient. DPRK has paid about 45% of its GLOC target in the period 2000-2006. (See Annex 1d) for breakdown of annual contributions.)

In conclusion we have shown ongoing commitment to improve the day-to-day management of operations in DPRK. However the fundamental issue concerns the way and the extent to which UN agencies, funds and programmes are able to contribute or not the implementation of Executive Board approved country programmes in DPRK.

As you know Secretary-General Ban Ki-moon has decided to have an overall review, worldwide of the activities of Funds and Programmes. Within that framework and with close guidance from the Executive Board we would welcome a more specific audit of the operations of funds and programmes in the DPRK. We hope all these efforts will allow us to continue to work within a professional relationship of trust and mutual support.

Yours sincerely,
/s/
Ad Melkert

ANNEX I

a) Implementation of audit recommendations

Status Summary Implementation of Recommendations for Audit Report RCM0018*

	(issued Aug 1999) as at 30 June 2000	(issued Jul 2001) as at Dec 2006	(issued Sept 2004) as at Dec 2006
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Implemented	17	27	8
In progress	11	7	4
Not Implemented	3	3	1
Unclear	N/A	0	0
Not applicable	N/A	1	1
Total No. Recommendations	31	38	14

* the audits conducted in 1999 and 2001 were carried out by the audit firm KPMG (based in Malaysia)

b) Segregation of duties for functional areas in the DPRK Country Office, consistent with the internal control framework of UNDP

- Bank Signatory and certifying officer functions - The national staff (Finance Officer) acted, and continues to act, as alternate bank signatory and certifying officer due to the limited number of international staff at the DPRK country office. This, of course, is communicated as per normal

procedures to headquarters.

- Personnel actions - National staff do not perform personnel actions. They assist the Operations Manager in personnel administration, but all personnel actions and decisions are taken by internationals.

- Prepare Contracts and Travel Authorizations - Preparation of contracts and their approval is carried out by international staff. Travel authorizations are prepared by national staff, but approved and signed only by international staff.

- Manages Petty Cash and maintains financial records - The

national Finance Officer has acted, and continues to be, the petty cash custodian as delegated.

- Acts as staff officer to dispose of equipment and supplies
- No national staff has acted as an officer disposing of equipment and supplies. Requests for disposal of equipment are reviewed and recommended by the LCAP, and submitted for approval to the Resident Representative.

The 1999 internal audit concern on handling of petty cash has been addressed satisfactorily in the following way with the office strictly implementation the Petty Cash guidelines issued by UNDP Headquarters. This includes maintaining the imprest level within the US\$500 limit, designating a petty cash custodian, keeping all single petty cash payments within \$50 and approving all petty cash expenditures. Cheque books are adequately controlled and kept in the office safe. A cheque register is also maintained in the safe.

Since the past several years the office raises Purchasing Orders for all travel and for all procurement of stationery, office supplies and equipment above \$2,500. for agency executed projects, the office raises PO,s based on requisitions from the agencies. Purchase are made by checks or bank transfers, not cash. The only payments in cash are petty cash payments.

c) Initiatives to strengthen program monitoring

UNDP country office management in DPRK places great importance on the need to continually monitor the relevance, performance and effectiveness of its programmes and projects, and to assure funding agencies and donors that resources provided through UNDP re used for their intended purpose. To this end, the country office is taking proactive steps to ensure that its support is provided in an effective, accountable and transparent manner. These include: development and implementation of an M&E Strategy for the DPRK programme in 2006; more rigorous and systematic project level M&E activities (tripartite reviews for all projects once a year, project monitoring visits); strengthened controls on the acquisition and use of project equipment including physical verification of equipment on delivery at the project site, maintenance of project inventories, and periodic physical verification of project assets against inventories, and the recruitment of an ARR (Programme) with specific experience and enhanced responsibilities for M&E plan implementation. It should be stressed that UNDP adheres to the UN principle of "no access-no assistance" in the implementation of its programme in DPRK. In addition, the predominant use of Direct Execution by the Country Office or DEX or agency implementation (such) as by UNOPS) in DPRK and not National Execution (NEX), though not ideal for fostering national ownership, provides UNDP with greater leverage and control over the use of funds.

d) Gloc performance over the years is as follows (in USD):

Year	Received
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2000	37,559
2001	37,209
2002	29,765
2003	61,547
2004	43,532
2005	78,144
2006	11,348

Total	299,104
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UNDP has been using GLOC balances since early 2006 to pay for rent and utilities for the office. In addition, DPRK has also made available, free of rent, a two floor building near the UNDP office in which several project offices and staff are accommodated. End Text.

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